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ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN NOVEMBER

By the end of November, the economy was showing signs of rapid recovery from the effects of the recent steel and coal strikes. Steel production jumped from 9 percent of capacity during the strike to over 90 percent in the first week in December; this exceeds considerably the immediate pre-strike rate of about 80 percent. Coal production in the latter part of the month was running about 12 percent above the comparable period of 1948, and freight carloadings were up 6 percent over last year. Wholesale prices generally remained stable, but farm prices fell 2 percent, bringing the parity ratio to 100 for the first time since 1941.

The main weakness on the industrial front was in automobile production, where shutdowns due to steel shortages and model change-overs cut output by one-third in the last week of the month. Although production for the rest of the year will be still lower, the industry has already surpassed the 1929 record of 5,400,000 cars, and output for the year may reach the 6,000,000 mark.

Employment Picks Up

Recovering rapidly from the effects of the steel and coal strikes, total employment rose half a million to 59.5 million in mid-November. The main increase came in nonfarm employment, which is now 51.6 million. Farm employment rose a little, contra-seasonally, as good weather in the early part of November permitted the resumption of harvesting operations delayed by October rains. Unemployment declined almost 200,000 to 3.4 million.

Construction Setting Record

Preliminary estimates put new construction activity in 1949 at $19.3 billion, an all-time high. During the first eleven months of this year, $17.7 billion of new construction was put in place, 2 percent more than in the corresponding period of 1948. New construction in November, at $1.7 billion, exceeded November, 1948, by 6 percent. There is little doubt that the December figure will more than equal the $1.1 billion required to bring this year's total up to the 1948 record of $18.8 billion.

In contrast to the early part of the year, private building is now the main sustaining factor in total construction. Residential nonfarm construction in November was 14 percent above November, 1948, and nonresidential private building moved contra-seasonally to equal the October level. Public construction has been declining according to the usual seasonal pattern but was nevertheless 19 percent above November last year.

New construction expenditures in 1950 are likely to equal the estimated 1949 total of about $19.3 billion, according to Department of Commerce estimates. A probable drop of $925 million in private construction outlays is expected to be offset by a corresponding increase in public construction expenditures.

Department Store Sales Lag

Unless this year's last-minute shopping rush greatly exceeds last year's, 1949 Christmas sales may end up appreciably below the 1948 season. Department store sales in November were about 6 percent below the corresponding month of last year, and total retail sales in October were 3 percent under October, 1948. All of the decline is accounted for by the decline in prices; and unit sales are running as high or slightly higher than last year.

At $17.2 billion, consumer credit at the end of October was at an all-time high. Having risen $388 million during the month, total consumer debt may well reach the $18 billion mark at the year's end; this would be more than twice the 1939 total. Installment credit is now over $10 billion, having risen 25 percent in the past year. However, the component to increase most is automobile credit which, at $3 billion, is more than 50 percent above last October's level.

Manufacturers' Sales and Inventories Down

The impact of the strikes caused manufacturers' sales to decline $1.3 billion, about 6 percent, to $18 billion in October. The decline was heaviest in durables, where sales declined 13 percent to $7 billion. Nondurable sales fell only $300 million.

Inventory liquidation continued in October, but at a much slower rate. The book value of manufacturers' inventories amounted to $30.9 billion, $100 million below September's level. Inventory holdings of durable goods on a seasonally-adjusted basis were down 1.4 percent, as compared with a 0.6 percent decline for nondurables.

Special feature: CONSUMPTION EXPENDITURES · By Robert Ferber · Page 8

ILLINOIS BUSINESS REVIEW

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Glittering Panacea

Reflecting the uncertainties and tension of the post-war period are demands for a return to "the gold dollar." Underlying them are deep psychological reactions — fear and mistrust, a desire to get one's hands on something solid, and a yearning for the "good old days."

Recently, a semi-legal business in gold has sprung up — not prohibited transfers of refined gold, but trading in so-called "natural state" gold. Sealed jars of gold dust with the assayer's report clearly visible through the jar are offered to all takers. Big buyers are said to have salted away quantities exceeding $100,000, at prices running a fourth above the official price of $35 an ounce.

In foreign markets, the premium on gold is even greater. In France, for example, the recent price has been equivalent to about $60 an ounce. President Truman's statement that the official price of gold would not be changed had little effect on this market; but, indicative of its irrationality, the price fell on reports that gold had been created by atomic transmutation, in costly laboratory experiments made several years ago.

Fortunately, not many Americans share these attitudes. Nor is everything irrational in the recent agitation for changes in gold policy. The gold producers and hoarders would obtain a real advantage from an increase in the price of gold. Others want to restore convertibility, to replace government discretion with an automatic money regulator, and thus hope to solve some of our monetary problems. Still others advocate a "free market" for trading and speculation, often with an ultimate change in price or convertibility in view.

Money Supply Not Determined by Gold

There can be no question of the need for sound money — meaning, by and large, money that is reasonably stable in value, since the social disturbances of rapidly changing prices are indeed incalculable. Through the centuries in which our complex economic structure was evolving, constant efforts to guarantee monetary integrity did not prevent the shift from gold to paper necessary for transacting modern business efficiently.

As trade began to expand at the close of the Dark Ages, there was a real need for gold as a medium of exchange. At that time the world was broken up into small, unstable political units; means of communication were limited; and travel was slow and hazardous. In those circumstances, gold unquestionably had the qualities of a good monetary medium. The part it played in advancing commerce and industry was early recognized, and laws were passed to ensure that foreign transactions would produce an inflow of the precious metal.

As political conditions stabilized, and industry and trade expanded, it became much easier to leave the gold in the vaults of the goldsmiths, or bankers, and use their written promises to pay in gold as a substitute. Since only a few of such promises had to be redeemed at any one time, the possibilities of expanding the volume outstanding beyond the actual gold on hand were quickly exploited. Deposit banking with limited gold reserves then became the accepted practice; and gold lost its position to the more ready, convenient means of payment which paper money and bank deposits offer.

In twentieth century America, the means of payment in these forms have consistently been far in excess of the monetary gold stock, before as well as since the abandonment of convertibility. In the prosperity period of the late 1920's, bank deposits and currency averaged over $50 billion, about 13 times the monetary gold stock of $4 billion. In this postwar period, they averaged about $170 billion, or 8 times a gold stock growing from $20 to $25 billion. Once the money supply had thus grown to the point where there could be no real intention of redeeming it, there could be no more honesty in maintaining a pretense of convertibility than in abandoning it.

The value of our money lies not in gold but in the goods and services whose production and exchange it facilitates. The real worth of the dollar is determined by the structure of prices; and because of the vast store already accumulated, the real worth of gold is determined by the price at which the government is willing to put it into or take it out of its monetary stockpile.

Convertibility No Assurance of Stability

Prices and money supply can now move either down or up without regard to changes in the gold stock. Down, whenever business contracts and bank loans are paid off. Up, by the reverse process, because our money supply is nowhere near the legal limits of its expansion. It is a situation that requires responsibility and restraint, not one that can be solved by a glittering panacea.

What seems to have given new cause for concern is the reappearance of government deficits, because government borrowing from the banks expands the money supply. However, the postwar inflation seems to have run its course, and the value of the dollar now appears to be well protected. There remain few bottlenecks in capacity, materials, or labor supply to limit industry's ability to increase production.

What does convertibility add to this picture? It certainly does not ensure against price declines. Like most monetary and credit controls, it is a one-way mechanism. Only at the peak of a new inflationary boom would it place an effective ceiling on the money supply. At that time, an arbitrary restriction would come into operation, without regard to underlying needs or conditions; and then, if the ceiling were actually lowered by gold withdrawals, with reserve ratios multiplying the reduction, its effect in bringing on deflation could be serious. In short, its only effective action is likely to be perverse as well as automatic and arbitrary.

The argument for such a system is that people who distrust government policies have the right to withdraw

(Continued on page 6)

GREETING CARDS

Each year the American public buys approximately 3 billion greeting cards, more than 20 cards per person. The cost of mailing these cards accounts for more than 10 percent of annual Federal postal revenues, and their printing and publishing has become "big business" in the United States. The huge selection of cards now available at 5¢ to 25¢ is the result of skilled assembly-line mass production combined with merchandising "know-how."

Convenience, attractiveness, and apt phrasing have all had a part in creating the present tremendous demand for greeting cards. The majority of people have little time for writing letters and often find that cards express sentiments "better than they could themselves." More and more types of cards have been requested over the years, until now it would be difficult to find an occasion for which some greeting cards has not been manufactured.

Illinois Third in Production

Receipts of $124 million were reported by the industry in the 1947 Census of Manufactures, an increase of more than 200 percent over the $40 million reported in 1939. The Census revealed that New York, Ohio, and Illinois were the leading states in the industry and that Illinois produced almost 15 percent of the national output, ranking third with $17.7 million in total sales.

The 21 Illinois establishments which print or publish greeting cards employ about one-sixth of the 18,000 workers in the industry. Most of the Illinois companies are relatively small, but collectively they do a large volume of business. Among the larger Illinois concerns that have national distribution are Gartner and Bender, and the George C. Carrington Company in Chicago, the Sangamon Company in Taylorville, and Greetings, Inc., and Volland's in Joliet.

Development of the Industry

Greeting cards as we know them have been in use only a little over one hundred years, but the idea goes back to the papyrus salutations of the Egyptians. Although valentines were sold during the Middle Ages, the greeting card custom is usually thought of as having started with the first Christmas card, created in London in 1842 by a young printer's assistant.

In spite of its English origin, the custom of sending greeting cards has become typically American, and its early popularity in this country was largely the result of the exceptionally fine work of Louis Prang, a German immigrant who published Christmas cards in Boston from 1870 until 1890, when the market was flooded with cheap imitative European imports. Prang was an expert at multicolor lithography, usually applying not fewer than eight and sometimes as many as 20 colors for his delicate illustrations, which were often mistaken for oil paintings. His method involved the transfer of oily ink to paper from heavy porous stone which was inked, printed, and erased, one color at a time.

The illustrations on these early cards were colored in delicate pastels rather than in red and green, and Santa Claus, stockings, holly, and mistletoe did not appear until the 1900's. One of the most popular early motifs was the New England rose growing through the snow.

Greeting card production as it exists today has been a twentieth century development, with the industry quadrupling in the past 25 years. After World War I, which shut off imports, dozens of new publishers entered the field, and competition resulted in the use of many new printing and art techniques and a tremendous increase in the types of cards available. By 1930 the industry was firmly established and the depression did little to retard its growth. The rediscovery and use of lithography, previously abandoned for steel die engraving and letterpress printing, did much to stimulate demand, and today, although most of the large companies use practically every printing process known, nearly 85 percent of all greeting cards are produced by the use of one or more lithographed colors.

How Greeting Cards Are Produced

In many printing establishments, greeting card publishing is only a side line, but the few really large organizations in the industry employ several thousand specialists to design and produce complete lines of greeting cards for all popular and seasonal occasions. In many cases a publisher's investment in any one number cannot be returned until 20,000 to 60,000 cards have been sold. Therefore, the large publishers, who produce as many as 5,000 different designs in a year, must continually make large investments far ahead of returns.

The development of a well-balanced line of greeting cards is the result of scientific merchandising at the dealer level. Publishers are constantly studying consumer demand for all types of cards in order to determine what sentiments, designs, and prices should be planned for each type. Merchandising records reveal with a high degree of accuracy how many out of 100,000 calls for greeting cards will be for 10¢ humorous birthday cards, 25¢ floral design anniversary congratulations, or any other of the innumerable combinations of types and prices.

Almost half of the greeting cards sold are Christmas cards. The industry, anticipating the largest Christmas sales in history, expects to sell over 1½ billion Yuletide greetings this year. A large firm puts out about 1,000 different cards in its Christmas line alone.

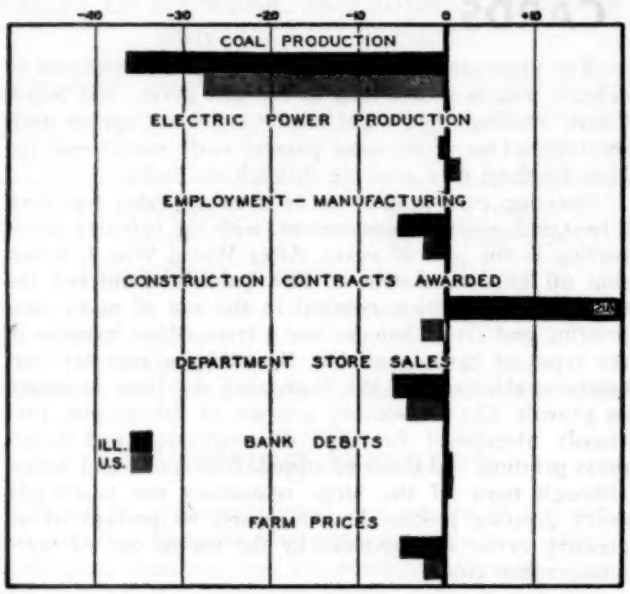
Most publishers start work on a line approximately 18 months ahead of the retail selling period. They began designing the 1949 Christmas cards in the early summer of 1948. Since actual creative work takes nearly a year, selling to the stores took place in the early spring of 1949, with delivery in the summer. The creation and publication of other holiday lines and "everyday" cards are similarly scheduled for year-round production. Thus, the industry has achieved stability of operations despite a highly seasonal market.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage Changes September, 1949, to October, 1949



ILLINOIS BUSINESS INDEXES

Items	October 1949 (1935-39 =100)	Percentage Change from Sept. 1949	Percentage Change from Oct. 1948
Electric power[1]	246.1	− 0.8	− 7.4
Coal production[2]	37.0	−36.6	−73.3
Employment—manufacturing[3]	108.8	− 5.3	−15.7
Payrolls—manufacturing[3]	253.3	− 5.9	−17.5
Dept. store sales in Chicago[4]	217.1[a]	− 6.0	−12.5
Consumer prices in Chicago[5]	174.4	− 0.8	− 2.1
Construction contracts awarded[6]	400.9	+21.8	+10.8
Bank debits[7]	265.6	+ 0.4	−13.4
Farm prices[8]	216.2	− 5.1	−16.3
Life insurance sales (ordinary)[9]	169.9	+10.3	+ 5.0
Petroleum production[10]	248.2	+ 4.2	− 0.9

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Coop. Crop Repts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	October 1949	Percentage Change from Sept. 1949	Percentage Change from Oct. 1948
	Annual rate in billion $		
Personal income[1]	208.4[a]	− 1.0	−3.7
Manufacturing[1]			
Sales	200.4[a]	−11.6	−12.1
Inventories	31.1[a, b]	− 0.3	− 7.2
New construction activity[1]			
Private residential	8.7	+ 6.6	+ 8.2
Private nonresidential	7.5	− 4.6	− 8.3
Public nonresidential	6.1	− 3.4	+12.6
Foreign trade[1]			
Merchandise exports	10.2	− 6.2	−17.1
Merchandise imports	6.7	+ 5.5	− 7.0
Excess of exports	3.5	−22.7	−31.5
Consumer credit outstanding[2]			
Total credit	17.2[b]	+ 2.3	+10.8
Installment credit	10.2[b]	+ 2.8	+23.5
Business loans[3]	13.7[b]	+ 2.2	−11.2
Cash farm income[3]	39.6	+26.9	−14.8
	Indexes (1935-39 =100)		
Industrial production[3]			
Combined index	166[a]	− 4.6	−14.9
Durable manufactures	174[a]	−12.6	−24.7
Nondurable manufactures	176[a]	+ 2.3	− 1.7
Minerals	114[a]	− 4.2	−27.8
Manufacturing employment[4]			
Production workers	n.a.	n.a.	n.a.
Factory worker earnings[4]			
Average hours worked	106	+ 0.3	− 0.8
Average hourly earnings	233	− 1.1	+ 0.1
Average weekly earnings	246	− 0.8	− 0.6
Construction contracts awarded[5]	449	− 2.9	+36.4
Department store sales[3]	276[a]	− 4.5	−10.7
Consumers' price index[4]	168	− 0.6	− 2.9
Wholesale prices[4]			
All commodities	189	− 1.0	− 8.0
Farm products	210	− 2.1	−13.0
Foods	202	− 1.5	−10.4
Other	179	− 0.2	− 5.5
Farm prices[3]			
Received by farmers	227	− 2.4	−12.3
Paid by farmers	192	− 0.8	− 3.6
Parity ratio	101[c]	− 1.9	− 9.0

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] As of end of month. [c] Based on official indexes, 1909-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1949 Nov. 26	1949 Nov. 19	1949 Nov. 12	1949 Nov. 5	1949 Oct. 29	1948 Nov. 27
Production:						
Bituminous coal (daily avg.) thous. of short tons	2,387	2,358	1,183	447	462	2,079
Electric power by utilities mil. of kw-hr.	5,537	5,644	5,435	5,435	5,433	5,349
Motor vehicles (Wards) number in thous.	71.9	111.8	111.7	112.8	131.6	83.3
Petroleum (daily avg.) thous. bbl.	5,133	5,152	5,127	5,071	5,018	5,617
Steel 1935-39=100	161.5	118.5	43.4	18.2	18.6	200.3
Freight carloadings thous. of cars	665	759	636	579	591	723
Department store sales 1935-39=100	330	342	318	315	298	347
Commodity prices, wholesale:						
All commodities 1926=100	151.5	151.4	151.5	151.4	152.5	164.2
Other than farm products and foods 1926=100	145.0	144.8	144.8	144.6	144.8	153.6
28 commodities August, 1939=100	250.0	249.1	249.1	248.7	247.3	306.4
Finance:						
Business loans mil. of dol.	13,772	13,776	13,783	13,694	13,680	15,545
Failures, commercial number	148	183	222	196	221	101

Source: *Survey of Current Business, Weekly Supplements.*

RECENT ECONOMIC CHANGES

Labor Situation Improves

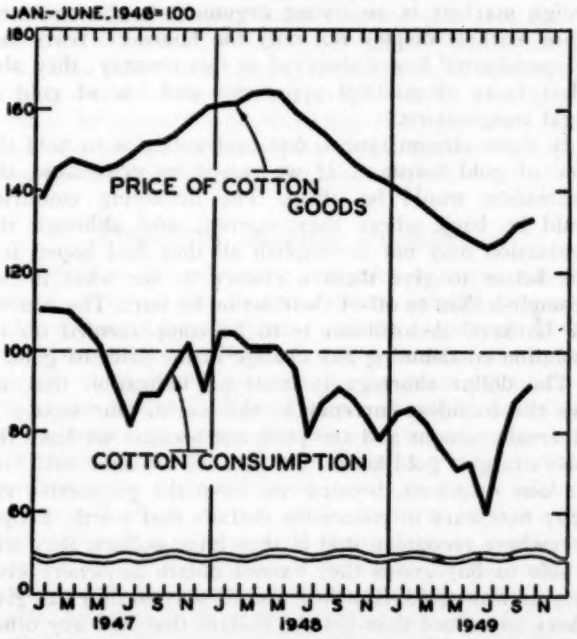
The employment picture improved in November, with employment rising by 517,000 workers. Unemployment dropped by 167,000 workers to the lowest point since May. Since both the October and November survey weeks missed the bulk of the strike-induced unemployment, November's better showing was only partially due to the ending of the steel and coal strikes. Some of the improved situation was due to the usual Christmas pickup, with an increase in part-time work. November data of the Bureau of the Census are shown below, in thousands of workers:

	November 1949	*October 1949*	*November 1948*
Civilian labor force	62,927	62,576	61,724
Employment	59,518	59,001	59,893
Agricultural	7,878	7,710	7,961
Nonagricultural	51,640	51,290	51,932
Unemployment	3,409	3,576	1,831

With negotiations dragging on for still another month, the coal strike began to show signs of petering out. A three-week truce period ended November 30 with 400,000 bituminous coal miners walking out for the fourth time this year. On December 5, however, the miners returned to work a three-day week until further notice from John L. Lewis. Shortly thereafter, a few small coal companies signed agreements with the UMW, but the major producers had yet to sign contracts.

A 46-cent decline in the weekly earnings of 11.4 million factory production workers brought their average pay for a week's work down to $55.26 at mid-October. Strike-induced cuts in heavy industry production were the chief cause of the first interruption in a six-month gradual upward movement, which had reached a record high in September. Weekly earnings in durable goods manufacturing fell 69 cents to $58.11; in nondurables the drop was only 20 cents to $52.26. Average weekly hours for both durables and nondurables remained about the same.

INDEXES OF COTTON PRICES AND CONSUMPTION



Sources: U. S. Dept. of Commerce; Bureau of Labor Statistics.

Cotton Consumption Rebounds

Following an 18-month downward trend and a deep summer slump, the cotton industry has shown a substantial recovery. Cotton consumption by mills rose in October to 725,602 bales, 2 percent higher than September consumption and the highest level since June, 1948 (see chart). Cotton mills in October operated at 123.3 percent of theoretical capacity. Confidence of producers is rising as order backlogs increase, with some buyers anticipating needs well into 1950. Some strength is given cotton by India's freezing of burlap stocks. Cotton goods prices likewise have again turned upward, after declining steadily for a year and a half, and in October reached 132.4 percent of the level of the first half of 1946. Whether the price recovery will continue in the face of this year's raw cotton surplus remains to be seen, but no sizable decline seems likely in view of a 90-percent-of-parity support level in force for 1950 as well as 1949.

Prices Level or Down Slightly

Wholesale prices generally continued their sidewise movements in November. The all-commodity index showed no change but subgroups showed small contrasting movements. Slight declines in farm products and foods were offset by increases in industrial materials.

The parity ratio for farm prices declined one point in November to an even 100, the first time since Pearl Harbor that it has been so low. This means that the price level of goods purchased by farmers bears the same ratio to the prices received for their products as prevailed in the prosperous pre-World War I base period. Primarily responsible for the current decline is a four point drop in the prices-received index, as prices of hogs, corn, cotton, soybeans, and eggs nosed downward.

The consumers' price index for October 15, at 168.5 percent of the 1935-39 average, was down 0.6 percent from the September 15 level. A decline in food prices of 1.8 percent was the important factor in the decreased cost of living, although prices of apparel and housefurnishings also showed small decreases. Rents and fuel, electricity, and refrigeration showed minor increases.

National Product Down Again

Gross national product dropped off a little more than 1 percent in the third quarter, as shown by the tabulation below. All major classifications fell slightly, with net

GROSS NATIONAL PRODUCT OR EXPENDITURE
(seasonally adjusted, billions of dollars at annual rates)

	3rd Qtr. 1949	*2nd Qtr. 1949*	*3rd Qtr. 1948*
Gross national product	256.3	259.6	266.5
Personal consumption	178.5	178.9	180.3
Durable goods	25.8	23.8	24.8
Nondurable goods	96.5	99.3	101.8
Services	56.2	55.9	53.7
Domestic investment	35.0	35.4	47.1
New construction	17.3	16.4	18.7
Producers' durable equipment	20.1	20.4	21.0
Change in business inventories	−2.4	−1.4	7.4
Nonfarm inventories only	−2.6	−2.1	5.4
Foreign investment	− .8	1.2	− .1
Government purchases	43.6	44.0	39.2
INCOME AND SAVINGS			
National income	n.a.	223.4	230.4
Personal income	210.6	212.5	215.4
Disposable personal income	191.9	193.8	195.2
Personal saving	13.3	14.8	15.0

foreign investment showing the largest change. With personal income down less than one percent, personal consumption expenditures continue at a high level. The Department of Commerce points out that inventories have been the unstable element in the gross national product; the total of the other classifications, purchases by "ultimate consumers," has remained fairly steady.

Foreign Trade Shifts

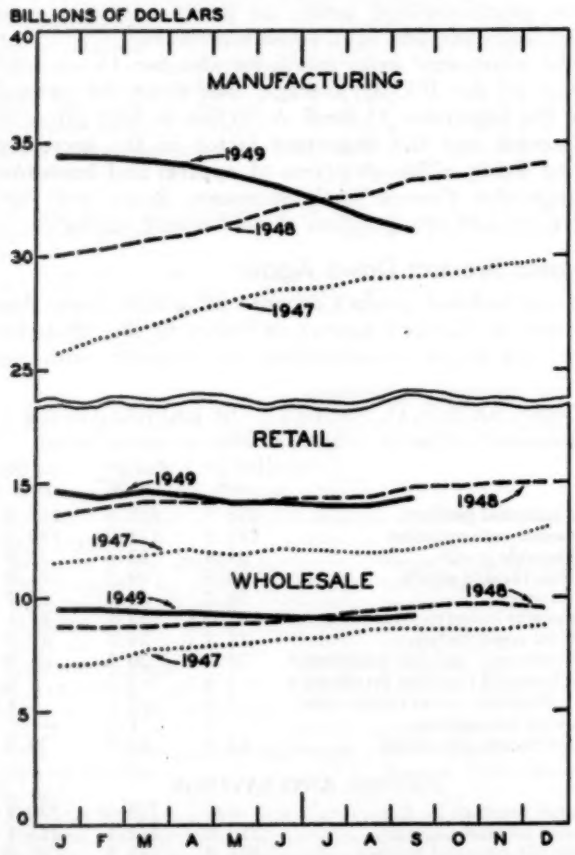
The gap between United States exports and imports in October fell to the lowest level since November, 1948, $290 million. Exports declined $56 million to $849 million, whereas imports rose $29 million to $559 million. While the currency devaluations in September and October may have been partly responsible for the shift, the Department of Commerce doubts that much of their effect will appear before November.

The Department of Commerce has recently tightened its controls on the shipment of strategic materials. About a hundred additional commodities were placed under license controls designed to halt the diversion of such articles at foreign ports to Eastern European countries.

Business Inventories

As shown in the chart below, business inventories more nearly held their level in September than in preceding months. Although manufacturers' inventories continued to fall, the rate of decline decreased; and in retailers' and wholesalers' inventories, there was a reversal of the downward movement. Since the chart data are seasonally adjusted, the change reflects something more than pre-Christmas inventory accumulation.

BUSINESS INVENTORIES



Source: U. S. Dept. of Commerce.

Glittering Panacea

(Continued from page 2)

gold and thus put a check on political spending. It is an argument that overlooks two important points: first, no government would long accept such arbitrary control by a mere gold provision of its own creation, and second, the people generally may not wish to grant any limited group the "right" to replace constitutional control of the public purse with hoarding based on private judgment.

In this context, it is futile to talk of the "rights" of workers to exchange their labor for gold, or of newsboys to invest their pennies in gold pieces. Only in rare panic situations are the actions of such people significant, and then there is little likelihood that they can get their small holdings out in time. It is a "right" confined to those with sufficient financial resources to make withdrawals large enough to have an appreciable effect.

Except for the rising trend in military expenditures, including military assistance for other nations, there is no present danger to our economic position. Such expenditures are, and continue to be, controlled by the representatives of the people. Suppose circumstances brought the expansion of such expenditures to the point where they offered a distinct threat of inflation. Could it then be considered reasonable to enforce an automatic restriction or would a different type of control be needed?

World Now on Dollar Standard

At present, gold is used only in bullion form, as a medium for settling international accounts. In this role, it serves quite satisfactorily, perhaps partly as a matter of tradition, though without the firm United States policy on accepting gold, the tradition might have broken down. After the war, gold flowed in rapidly, as practically all foreign countries drew upon their reserves to meet urgent needs. Thus, we have not only sustained a means of payment but provided a substantial element of foreign aid to gold-producing countries and others with gold reserves.

While gold nominally remains the international standard of value, its real value in the international as well as the domestic sphere is set by the dollar. The fact that gold commands a premium over the dollar in some foreign markets is no strong argument to the contrary. Those markets display not only the hoarders' fears and the speculators' hopes observed in this country; they also reflect fears of political oppression and use of gold in illegal transactions.

In these circumstances, our best policy is to hold the price of gold constant. If we raised its price now, the devaluation would be offset. The devaluing countries would be back where they started; and although the devaluation may not accomplish all they had hoped for, it is better to give them a chance to see what it can accomplish than to offset their action by ours. The American Bankers' Association is to be complimented on its resolution condemning any change in the price of gold.

The dollar shortage is itself an indication that we have the soundest currency in the world. Our money is universally sought and accepted, not because we have the world's largest gold hoard, but because we have such tremendous resources, because we have the productive capacity necessary to ensure the dollar's real worth. People everywhere recognize that if they have dollars, they will be able to buy goods they cannot obtain anywhere else. They do want gold. But they want it only so they can give it back to us and thus get the dollars that will buy other things they need.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Television Advertising

Businessmen interested in television advertising shouldn't miss seeing a copy of *Television as an Advertising Medium,* a recent publication of the Department of Commerce. The booklet is essentially an analysis of the current status of the industry and its potentialities. It contains not only such basic information as the number of stations in operation, sets installed, marketing areas covered, and cost of time, but discusses the do's and don'ts of programming and commercials. A 26 by 40 inch map of the United States is included showing the location and number of TV installations in operation, under construction, or proposed.

Industrial Research

A new tinted safety plate glass for use in automobiles has been announced by the Libby-Owens-Ford Glass Company. The new glass, which has a slight bluish-green tint, derived from chemicals mixed with the raw materials during manufacture, curbs both glare and heat. It cuts more than 15 percent of the infrared rays of sunlight without distortion of vision and is also effective in reducing night headlight glare.

* * * * * *

The International Nickel Company has been granted patents for a new cast iron that can be bent or twisted, as a result of the addition of a small amount of magnesium to molten iron. One of the outstanding metallurgical developments in history, the new iron is said to be much stronger, more ductile, and more shock-resistant than ordinary cast iron. It is expected to be of particular value in the automotive, agricultural implement, machinery, oil, and railroad industries.

Labor Statistics

Summary sheets showing comparable labor statistics for most of the nation's industries are available on request to the Bureau of Labor Statistics, Washington 25, D. C. The data include number and type of employees, average weekly hours, and average weekly and hourly earnings by months from January, 1947, to date. These completely revised tables supersede all similar data published by the BLS prior to September, 1949.

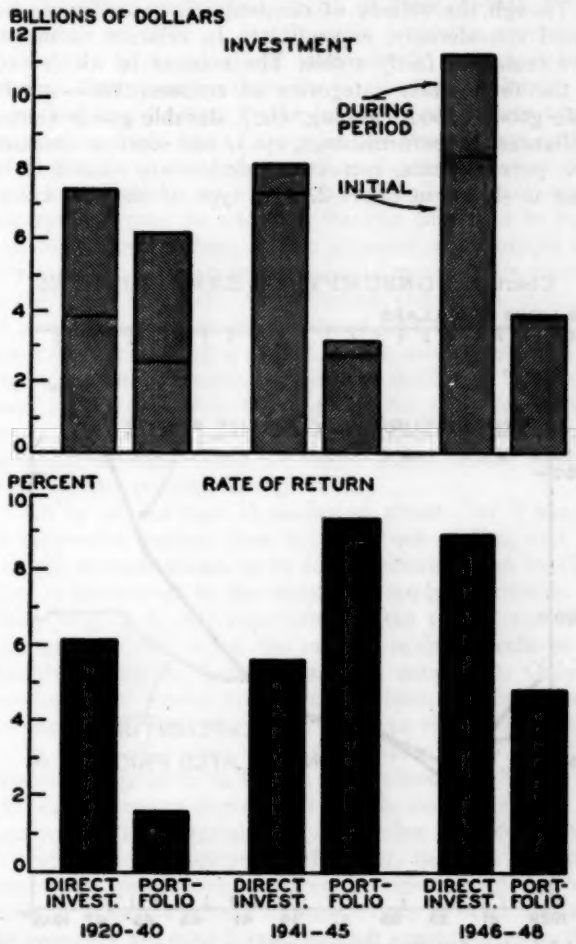
Regional Income Indexes

Good news for marketing and sales executives is the reintroduction of the *Business Week* monthly regional income indexes, discontinued since the beginning of the war. Described in the November 26th issue of the magazine, the indexes will measure the business potential of each of the twelve Federal Reserve Districts, describing what is happening to consumer income, whose movements are a prime determinant of sales. Regular monthly income information by regions should prove to be a valuable business aid since annual, and therefore less timely, national statistics often are of limited use to businesses operating in only one section of the country. The *Business Week* indexes are designed to be comprehensive, comparable, and up to date and will be accompanied each month by a regional market report.

Private Investment Abroad

At the end of 1948 private foreign investments were at a near-peak of $15 billion, with over $11 billion in direct investments. The November issue of the *Survey of Current Business* contains a discussion of "Private United States Direct Investment Abroad" which states that foreign investments in general have expanded rapidly since the war, and that interest has recently been stimulated by President Truman's "fourth point." America's long-run experience with investment abroad has been favorable, although a considerable amount of money has been lost in foreign securities. As shown in the chart below, direct investments have proved to be much more satisfactory than portfolio holdings, which have yielded relatively low returns averaging about 3 percent of par value. Direct investments abroad were valued at $10 billion at the end of 1947, and their returns last year have been estimated at over $1.5 billion after foreign taxes, an impressive 15 percent return. Returns for the major industries abroad ranged from 2.4 percent on public utilities to 25.6 percent on petroleum production, the enterprise which has received the bulk of postwar capital outflows from the United States.

PRIVATE FOREIGN INVESTMENTS, 1920-1948



Source: U. S. Dept. of Commerce.

CONSUMPTION EXPENDITURES, PREWAR AND POSTWAR

ROBERT FERBER, Research Assistant Professor

The continued high level of consumer expenditures has been one of the principal sustaining factors in the postwar economy. In 1948, for example, consumers laid out about $180 billion for goods and services, nearly 94 percent of their income after tax payments.

The 1948 level of expenditures was more than twice that of 1941 and almost three times the 1936 expenditures. In the past three years alone, consumers have increased their expenditures by 45 percent.

Postwar Increase Largely Price Advance

This does not mean, however, that the physical volume of goods and services purchased by consumers rose proportionately, for a major part of this increase was due to the postwar rise in prices. This price effect is indicated by Chart 1, which presents consumer expenditures in current prices and expenditures deflated by a price index to show what they would have been in 1935-39 prices.

Although the volume of consumer purchases has not risen nearly as much as dollar expenditures, the amount of goods and services purchased in the postwar years is sharply higher than in the prewar period; 1948 expenditures were 60 percent above the 1935-40 annual average. However, from an aggregate point of view, the entire increase during the postwar years is seen to be the result of the rise in prices — essentially the same amounts of goods and services were purchased in 1946 as in 1949.

Though the volume of consumption expenditures has varied considerably, expenditures in relation to income have remained fairly stable. The manner in which each of the three main categories of consumption — nondurable goods (food, clothing, etc.), durable goods (autos, appliances, housefurnishings, etc.), and services (medical care, personal care, recreation, etc.) — are related to income is shown in Chart 2. This type of chart is known as a "scatter diagram." Each point represents two figures for a designated year: the amount of disposable income, plotted according to the horizontal scale; and the expenditures for that consumption category, plotted according to the vertical scale. All figures have been deflated by appropriate price indexes, specially computed to eliminate the effect of price changes on the relationships.

It will be noted that in the prewar years 1929-40 the physical volume of expenditures for each type of consumption was closely related to disposable income. Straight lines describing these relationships have been drawn on the chart and have been extrapolated to the postwar levels. What these lines tell us is that, during those prewar years, out of each additional dollar of real disposable income people spent on the average 15 cents for durable goods, 42 cents for nondurable goods, and 21 cents for service items.

During the war years, 1942-45, expenditures fell substantially below the prewar relation to income, as is shown in Chart 2 by the decline of the points for these years below the fitted lines. As one would expect, expenditures for goods that were most strictly controlled, mainly durables, dropped off the farthest. On the other hand, expenditures for services held almost at their prewar relation with income.

The postwar period has witnessed a quick rebound of durable and nondurable expenditures to about their prewar relationship to income and an even higher level of service expenditures, with the sharpest rises in expenditures for local transportation and recreation. (Actually, part of this excess may be spurious, because the postwar price index for services is based on very limited data, including controlled rents, and may be low.)

Nondurable expenditures were far in excess of their prewar relation to income early in the postwar period. This was apparently due to the fact that these goods became available much sooner than others after the years of scarcity during the war; these expenditures dropped back into line with income by the end of 1948. The slight decline in nondurables during the first three quarters of 1949 was largely due to weakness in expenditures for semi-durables like clothing; food expenditures have not declined at all.

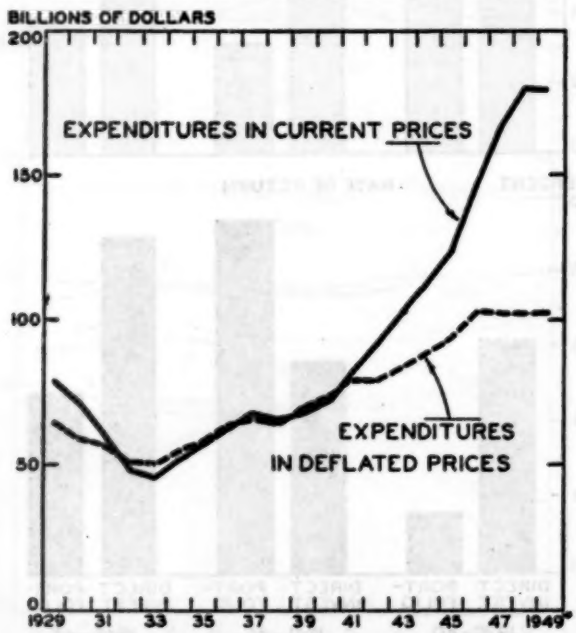
In durable goods, automobile purchases have maintained current expenditures near the peak of late 1948; expenditures for other durable goods have declined about as much as those for automobiles have advanced. With the possible saturation of the automobile market in the latter part of 1950, some further decline in durable goods expenditures may be expected. On the other hand, nondurable goods purchases in relation to income are not likely to decline any further and may even rise. Food expenditures tend to be fairly stable, and recent reports indicate that textiles are recovering from their recent slump. The trend of expenditure for service items may hinge on the maintenance of a high level of income.

Rate of Saving Low

One approach to evaluation of future trends in consumption is the rate of saving, for when consumers save a large part of their incomes their expenditures for consumption are necessarily curtailed. Chart 3 compares the rate of savings with deflated disposable income.

In the prewar period the rate of savings fluctuated

Chart 1. CONSUMPTION EXPENDITURES



* Average first three quarters only.

Sources: U. S. Dept. of Commerce; Bureau of Labor Statistics.

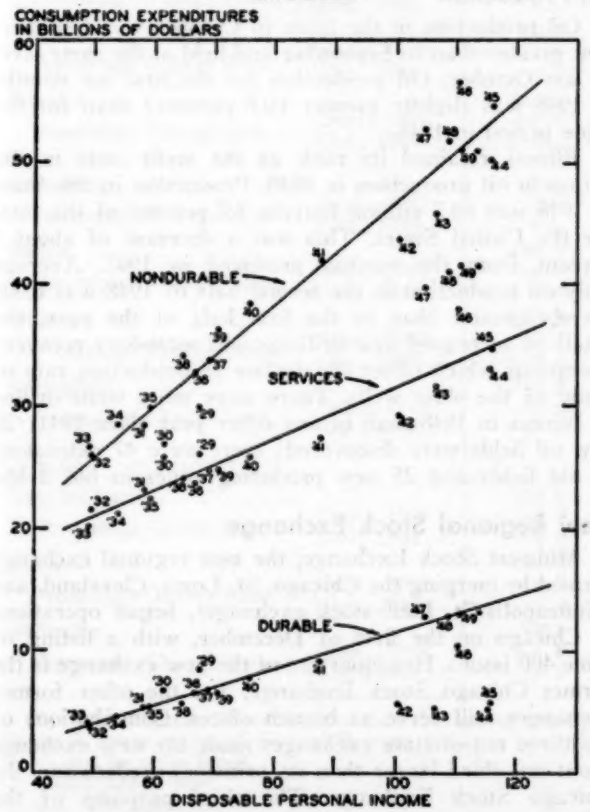
widely, generally being low in poor times and high in good times. At the bottom of the depression, savings were even negative, meaning that in the aggregate people spent more than they earned, using up past savings or going into debt. In the recovery of 1934-37, savings rose to 5.5 percent in 1937, but the recession of 1937-38 caused the rate of savings to tumble to 1.5 percent. Then, however, war shortages and rationing forced savings up phenomenally, to the point where consumers saved nearly one-fourth of their incomes in 1944.

With the termination of rationing, price, and production controls after the war, the rush to fill deferred demands caused the rate of savings to fall even faster than it had risen. By 1947, consumers were saving only 3 percent of their incomes, far below the rate of saving in earlier prosperous years. With immediate demands largely satisfied, the rate of saving more than doubled in 1948 and is likely to be a bit higher in 1949. However, since real disposable income is so much higher now than even in the best prewar years, the current rate of savings seems below what one might expect on the basis of its prewar relationship to real income. The crucial question is: Will this rate remain low, or is it likely to increase?

Factors Affecting Savings

Perhaps the main cause of this low savings rate is the huge savings of the war period. At the beginning of the war, consumers held $45 billion of liquid assets; this includes bonds, savings, and checking accounts but excludes currency. By the end of 1947, liquid asset holdings had risen to $130 billion, and a further $2 billion increase occurred during 1948; this tripling represents a substantial rise even when the increase in prices is taken into account. Nearly three-fourths of the nation's spending units had some savings, and almost one-third, or 16 million spending units, had saved at least $1,000 at the beginning of 1949. A family with a sizable amount of savings is likely to spend more freely out of current income than would otherwise be the case. Hence, the fact that liquid assets in the hands of consumers are at an all-time high acts to maintain the low savings rate.

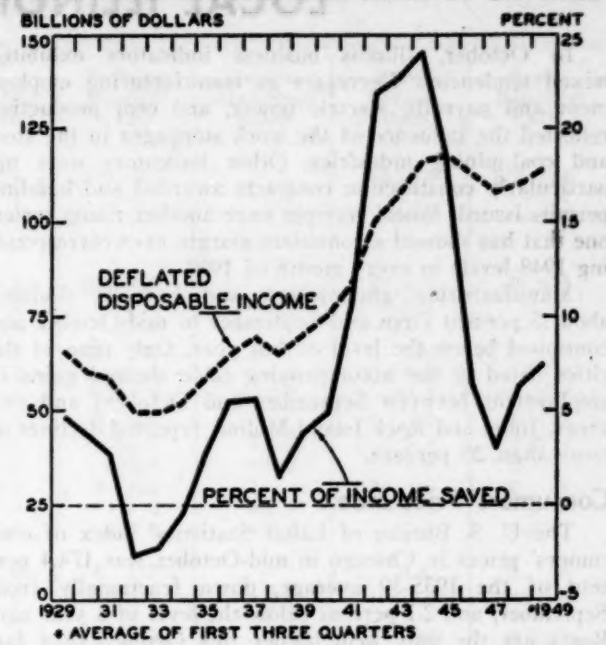
Chart 2. CONSUMPTION AND DISPOSABLE INCOME



* Average first three quarters only.

Sources: U. S. Dept. of Commerce; Bureau of Labor Statistics.

Chart 3. REAL INCOME AND RATE OF SAVINGS



Sources: U. S. Dept. of Commerce; Bureau of Labor Statistics.

Replacement demand, as well as the demand created by such new products as television, acts also to maintain a low savings rate. In addition, the rise in prices in itself acts to depress savings, for in a period when prices rise in relation to production the value of money falls relative to the value of goods. An uncertain element is purchase of own homes, which is considered part of saving in the sense of representing a capital outlay, and which, according to recent estimates, is likely to decline a little next year. If this decline is diverted to other types of expenditures, the rate of savings will be reduced, whereas the retention of such funds as liquid assets would tend to maintain the present savings rate.

All in all, the rate of saving of about 7 or 8 percent of disposable income does not seem out of line, and the general outlook seems to be for its continuation in 1950. This is likely even in the event of a moderate income decline, judging by the experience of the second and third quarters of 1949, when the rate of savings declined although disposable income also fell somewhat. Only if developments again bring expectations of sharp price declines is the rate of saving likely to rise substantially.

In terms of dollars, these conclusions imply that consumption expenditures will be maintained at a high level. The exact amount depends, of course, on the level of incomes, which is determined by a number of other factors in addition to consumption. However, the fact that consumption expenditures are likely to remain high in itself tends to maintain incomes. Since trends in other parts of the economy are mixed, consumption expenditures in 1950 will probably remain near the 1949 level.

LOCAL ILLINOIS DEVELOPMENTS

In October, Illinois business indicators exhibited mixed tendencies. Decreases in manufacturing employment and payrolls, electric power, and coal production reflected the influence of the work stoppages in the steel and coal-mining industries. Other indicators were up, particularly construction contracts awarded and building permits issued. Postal receipts were another rising series, one that has showed a consistent margin over corresponding 1948 levels in every month of 1949.

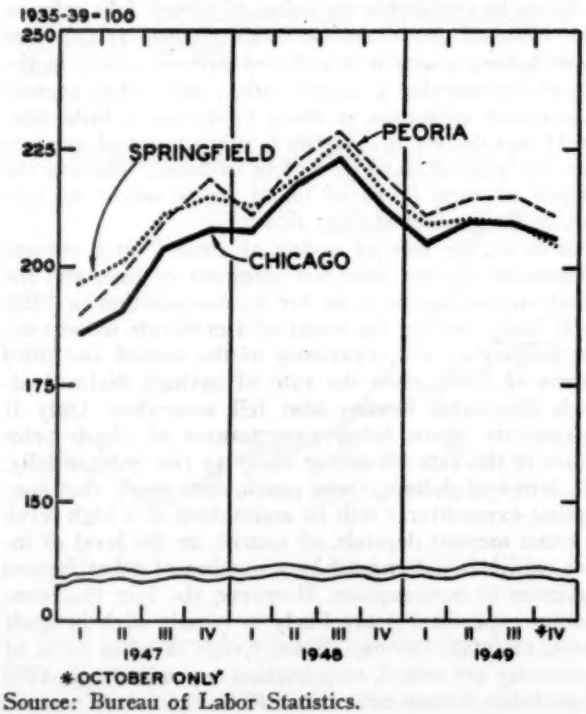
Manufacturing employment and payrolls declined about 5 percent from mid-September to mid-October and continued below the level of last year. Only nine of the cities listed in the accompanying table showed gains in employment between September and October; and two areas, Joliet and Rock Island-Moline, reported declines of more than 20 percent.

Consumers' Price Index

The U. S. Bureau of Labor Statistics' index of consumers' prices in Chicago in mid-October was 174.4 percent of the 1935-39 average, down fractionally from September, and 2.1 percent below the level of a year ago. Rents are the only item higher this October than last year. Note that these indexes measure the change in prices relative to the base period, 1935-39, but do not necessarily indicate that it costs more to live in one city than in another. The chart on this page compares changes in the retail food price indexes for Chicago, Peoria, and Springfield since 1947. The points plotted are averages of monthly indexes for each quarter. Over this period, food prices in Springfield have declined in comparison with those in Chicago and Peoria.

The index for Peoria has remained above those for the other two cities and the margin appears to be widening. This smaller proportionate decline in food prices in Peoria may be due to the considerable industrial expansion there in the last two years. One bit of evidence on this point is the change in construction over the two-year period; the value of building permits the first ten months of 1949 as compared with the first ten months of 1947 was 43 percent greater in Peoria, only 32 percent more in Chicago, and actually declined in Springfield.

INDEXES OF RETAIL FOOD PRICES



Source: Bureau of Labor Statistics.

Department Store Sales

October department store sales throughout the State were down slightly from September and were off 12 percent from last October. Unusually warm weather was part of the explanation for the decline in sales. Decreased industrial activity, resulting in lower incomes, probably also influenced buyers' attitudes. Although 8 of the 13 reporting cities gained, declines in the other 5 were of sufficient magnitude to reduce the total below September. Sales in all cities this October were less than in October, 1948. Joliet is the only reporting city in which department store sales for the first 10 months of this year exceeded sales for the same period last year.

Construction

Construction contracts awarded in October were 22 percent greater than the amount awarded in September and 11 percent greater than in October, 1948. Value of building permits issued in October in the 18 reporting cities exceeded the value of permits issued in September by 3.5 percent and approximated the amount issued last October. During the first nine months of this year, total authorized urban building in the State was 12 percent less than for the same period last year.

Oil Production

Oil production in the State in October was four percent greater than in September and held at the same level as last October. Oil production for the first ten months of 1949 was slightly greater (0.7 percent) than for the same period in 1948.

Illinois retained its rank as the sixth state in the nation in oil production in 1948. Production in the State in 1948 was 64.7 million barrels, 3.2 percent of the total for the United States. This was a decrease of about 3 percent from the amount produced in 1947. Average daily oil production in the second half of 1948 was 6,000 barrels greater than in the first half of the year, the result of successful new drillings and secondary recovery operations which offset the decline in production rate of many of the older wells. There were more wells drilled in Illinois in 1948 than in any other year since 1941: 28 new oil fields were discovered; there were 47 extensions to old fields and 25 new producing zones in old fields.

New Regional Stock Exchange

Midwest Stock Exchange, the new regional exchange formed by merging the Chicago, St. Louis, Cleveland, and Minneapolis-St. Paul stock exchanges, began operations in Chicago on the first of December, with a listing of some 400 issues. Headquarters of the new exchange is the former Chicago Stock Exchange, and the other former exchanges will serve as branch offices. Contributions of the three out-of-state exchanges made the new exchange about one-third larger than its principal predecessor, the Chicago Stock Exchange. The chief purposes of the merger are to create a wider market for Midwestern issues and to meet the needs of the small investor better.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES
OCTOBER, 1949

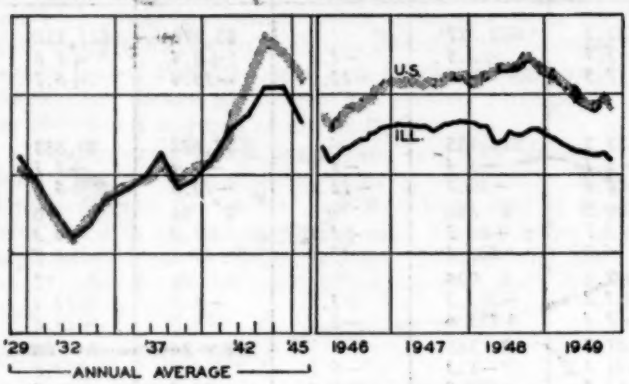
	Manufacturing[1] Employment & Payrolls (Indexes 1935-39 = 100)		Building Permits[1] (000)	Department Store Sales[2]	Bank Debits[2] (000,000)	Postal Receipts[3] (000)
ILLINOIS	108.8	253.3	$20,377[a]		$8,278[a]	$11,118[a]
Percentage Change from Sept., 1949	−5.3	−5.9	+3.5	−1.3	+0.4	+1.6
Percentage Change from Oct., 1948	−15.7	−17.5	−0.6	−12.0	−13.4	+6.7
NORTHERN ILLINOIS						
Chicago	108.5	253.2	$14,135		$7,422	$9,833
Percentage Change from Sept., 1949	−4.3	−5.1	−5.4	−1.9	−0.4	+1.1
Percentage Change from Oct., 1948	−16.4	−18.6	−10.1	−12.1	−14.3	+6.7
Aurora	123.7	309.5	$ 396		$ 34	$ 76
Percentage Change from Sept., 1949	+1.0	+3.7	+66.3	+1.1	+2.3	+4.3
Percentage Change from Oct., 1948	−10.4	−16.0	+221.4	−12.2	−10.3	+1.7
Elgin	101.2	247.6	$ 995		$ 22	$ 72
Percentage Change from Sept., 1949	+1.7	+3.2	+363.3	+1.7	−1.9	+24.4
Percentage Change from Oct., 1948	−4.3	−7.4	+355.6	−8.3	−3.0	+13.6
Joliet	60.7	137.2	$ 383		$ 36	$ 68
Percentage Change from Sept., 1949	−38.6	−41.1	−8.3	−0.9	−4.3	+34.8
Percentage Change from Oct., 1948	−45.7	−53.6	+198.8	−7.1	−12.3	+50.3
Kankakee	125.4	364.6	$ 118		n.a.	$ 26
Percentage Change from Sept., 1949	−2.0	+2.2	+0.6	+3.3		+1.3
Percentage Change from Oct., 1948	−22.2	−17.8	+44.7	−12.1		+20.5
Rock Island-Moline	91.1	214.7	$ 913		$ 28[b]	$ 117
Percentage Change from Sept., 1949	−26.3	−30.6	+75.4	n.a.	+9.8	−16.3
Percentage Change from Oct., 1948	−29.0	−28.6	+57.6		−8.4	+6.9
Rockford	136.8	356.9	$ 469		$ 87	$ 138
Percentage Change from Sept., 1949	+0.9	+2.8	+39.0	+2.2	+1.4	+6.2
Percentage Change from Oct., 1948	−9.3	−15.8	−39.3	−18.9	−8.7	+1.2
CENTRAL ILLINOIS						
Bloomington	89.2	199.3	$ 551		$ 44	$ 75
Percentage Change from Sept., 1949	+1.2	+1.9	+155.4	n.a.	+13.5	+13.5
Percentage Change from Oct., 1948	−22.4	−21.2	+308.0		+3.3	+15.6
Champaign-Urbana	n.a.	n.a.	$ 222		$ 48	$ 73
Percentage Change from Sept., 1949	−0.5	+3.3	−47.4	−5.2	+23.1	+22.1
Percentage Change from Oct., 1948	n.a.	n.a.	+79.3	−2.5	+5.7	+6.4
Danville	78.0	201.3	$ 114		$ 34	$ 50
Percentage Change from Sept., 1949	+1.9	−7.0	−70.8	+0.2	+2.4	+13.8
Percentage Change from Oct., 1948	−3.0	−2.9	−6.9	−10.7	−11.8	+7.2
Decatur	114.6	307.6	$ 356		$ 96	$ 74
Percentage Change from Sept., 1949	+0.7	+5.1	−1.8	+8.0	+40.1	−4.1
Percentage Change from Oct., 1948	−4.3	+3.5	+58.4	−4.2	+3.4	+4.5
Galesburg	n.a.	n.a.	$ 211		n.a.	$ 25
Percentage Change from Sept., 1949	−0.7	+8.1	−77.9	n.a.		−2.3
Percentage Change from Oct., 1948	n.a.	n.a.	−9.1			−3.5
Peoria	156.6	323.6	$ 513		$ 180	$ 165
Percentage Change from Sept., 1949	+0.5	−0.7	+17.2	+1.7	+5.1	−1.2
Percentage Change from Oct., 1948	−2.4	−2.1	−38.1	−13.7	−5.2	+10.8
Quincy	102.8	218.3	$ 82		$ 31	$ 62
Percentage Change from Sept., 1949	+0.5	−3.5	−34.5	+2.0	+8.2	+2.7
Percentage Change from Oct., 1948	−20.1	−18.5	−52.9	−13.0	+3.1	+2.5
Springfield	218.4	569.9	$ 334		$ 73	$ 169
Percentage Change from Sept., 1949	−2.4	−0.8	+19.8	−6.9	+0.6	+7.2
Percentage Change from Oct., 1948	−27.0	−22.2	−28.9	−12.5	−5.3	−4.6
SOUTHERN ILLINOIS						
East St. Louis	109.8	227.1	$ 233		$ 118	$ 40
Percentage Change from Sept., 1949	+4.2	+1.8	−21.3	−1.0	+2.2	+2.6
Percentage Change from Oct., 1948	−8.9	−12.9	+9.7	−4.0	−8.4	−6.2
Alton	156.5	425.7	$ 169		$ 23	$ 24
Percentage Change from Sept., 1949	−1.7	−0.0	−20.9	n.a.	+3.7	+29.1
Percentage Change from Oct., 1948	−16.4	−11.6	−39.4		−6.0	+17.9
Belleville	73.1	179.7	$ 183		n.a.	$ 29
Percentage Change from Sept., 1949	−8.8	−13.0	+192.0	n.a.		+12.4
Percentage Change from Oct., 1948	−13.8	−26.6	+147.1			+4.3

Sources: [1] Illinois Department of Labor. Data on employment and payrolls include plants in areas surrounding designated cities.
[2] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. [3] Local post office reports.
[a] Total for cities listed.
[b] Rock Island only.
n.a. Not available.

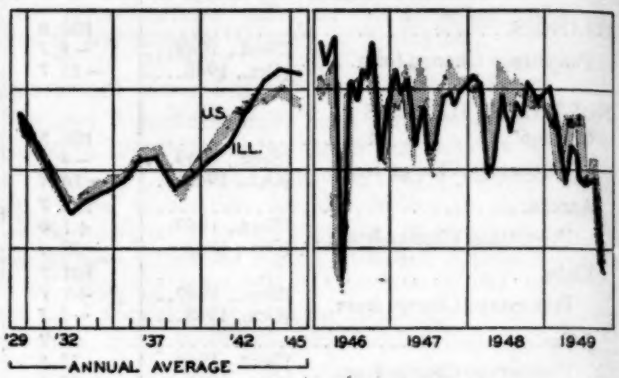
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

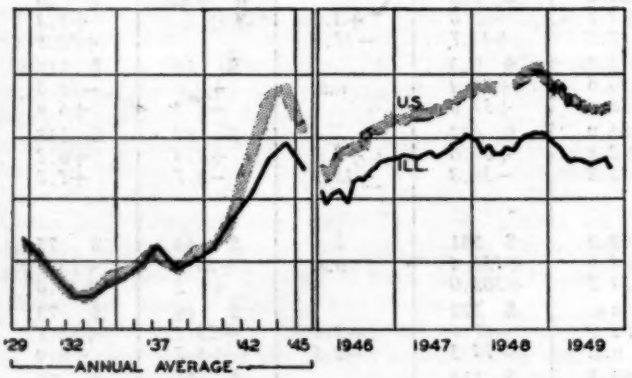
EMPLOYMENT - MANUFACTURING



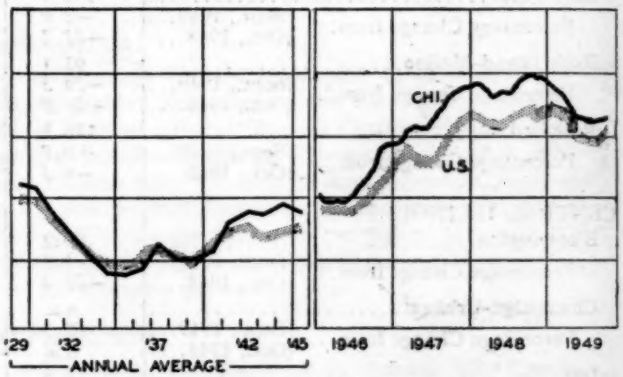
COAL PRODUCTION



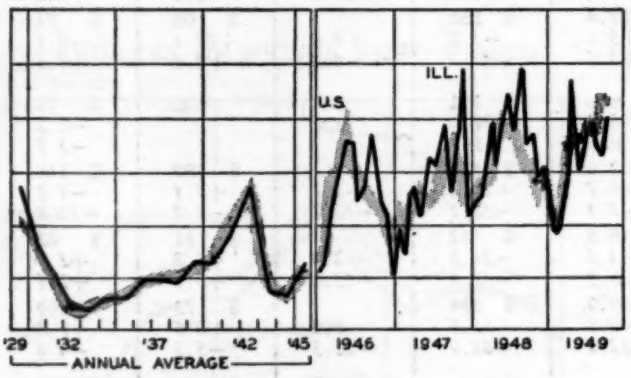
PAYROLLS - MANUFACTURING



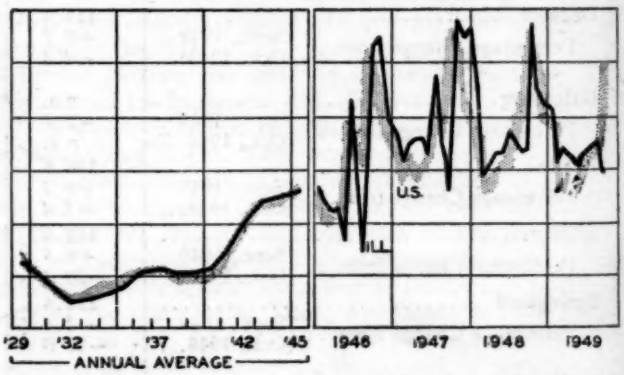
BUSINESS LOANS



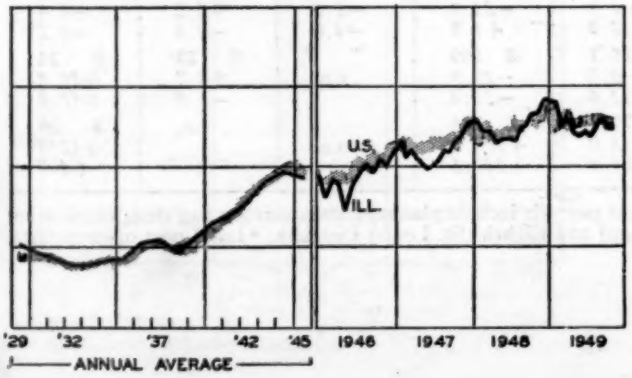
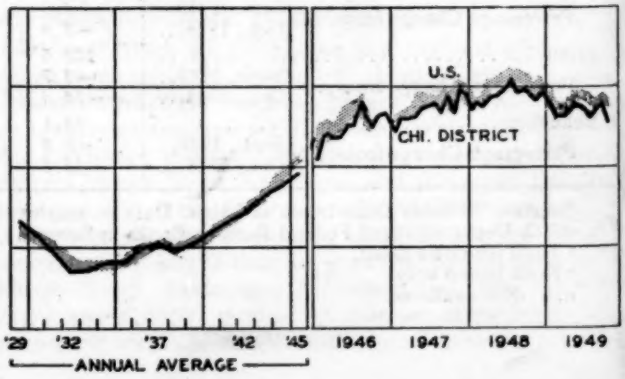
CONSTRUCTION CONTRACTS AWARDED



CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES